

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)	
establishing the method and avoided cost calculation)	
for UPPER PENINSULA POWER COMPANY to fully)	Case No. U-18094
comply with the Public Utility Regulatory Policies)	
Act of 1978, 16 USC 2601 <i>et seq.</i>)	
_____)	

At the January 23, 2018 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

The Commission opened this docket in an order issued on May 3, 2016 (May 3 order), and directed Upper Peninsula Power Company (UPPCo) to file proposed avoided cost calculation methods and costs in accordance with the requirements of the Public Utility Regulatory Policies Act of 1978, PL 95-617; 92 Stat 3117 (PURPA) and the May 3 order.

On June 17, 2016, UPPCo filed an application requesting approval of its "Full Requirement Contract Methodology" for determining avoided costs. Administrative Law Judge Suzanne D. Sonneborn (ALJ) held a prehearing conference on July 21, 2016. The Environmental Law & Policy Center, Ecology Center, Solar Energy Industries Association, and Vote Solar (collectively) and the Commission Staff participated in the proceedings. On September 28, 2017, the Commission issued an order which: (1) approved an avoided capacity cost for UPPCo equal to the

company's contract capacity price at the time the PURPA contract is entered into, with an adjustment for effective load carrying capability applied to the qualifying facility (QF); (2) directed UPPCo to file its next PURPA application by February 1, 2019; (3) adopted a 10-year planning horizon for determining whether UPPCo requires additional capacity and, if so, requires the company to purchase capacity from QFs; (4) for energy payments, approved the use of locational marginal price (LMP) at the time of delivery or based on forecasted LMP, at the option of the QF; (5) found that the avoided costs approved in the order should apply to new and renegotiated PURPA contracts only; (6) adopted the same avoided cost methods for the Standard Offer tariff described above; (7) approved a design capacity for the Standard Offer of one megawatt; and (8) approved contract terms of five, 10, 15, and 20 years, at the option of the QF, for the Standard Offer. The Commission noted, however, that the LMP prices in the record were only forecasted for 10 years. The Commission therefore reopened the record for the limited purpose of receiving evidence on the forecast of LMP, at an appropriate node, for 20 years. In addition, the parties were directed to file proposed Standard Offer tariffs.

A second evidentiary hearing was conducted on November 9, 2017. Subsequently, the parties submitted a settlement agreement resolving the remaining issues in the case.

The Commission has reviewed the settlement agreement and finds that the public interest is adequately represented by the parties who entered into the settlement agreement. The Commission further finds that the settlement agreement is in the public interest, represents a fair and reasonable resolution of the remaining issues in this proceeding, and should be approved.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached as Exhibit A, is approved.
- B. The tariff sheets, attached as Attachment 1 to the settlement agreement, are approved.
- C. Within 30 days of the date of this order, Upper Peninsula Power Company shall file tariff sheets substantially similar to those attached to the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so by the filing of a claim of appeal in the Michigan Court of Appeals within 30 days of the issuance of this order, under MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at mpscedockets@michigan.gov and to the Michigan Department of the Attorney General - Public Service Division at pungp1@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General - Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of January 23, 2018.

Kavita Kale, Executive Secretary

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comply with the Public Utilities Regulatory Policy Act of)	
<u>1978, 16 USC 2601 <i>et seq.</i></u>)	

SETTLEMENT AGREEMENT

As provided in Section 78 of the Administrative Procedures Act of 1969 ("APA"), as amended, MCL 24.278 and Rule 431 of the Michigan Administrative Hearing System's Administrative Hearing Rules, 2015 AC, R 792.10431, Upper Peninsula Power Company ("UPPCO"), the Michigan Public Service Commission ("MPSC" or the "Commission") Staff ("Staff"), and the Environmental Law and Policy Center, the Ecology Center, the Solar Energy Industries Association, and Vote Solar (collectively "ELPC, et al.") hereby agree as follows:

1. On May 3, 2016, the MPSC issued its Order initiating this proceeding, and pursuant to due notice, a prehearing was held on July 21, 2016, before Administrative Law Judge ("ALJ") Suzanne D. Sonneborn. At that time, ELPC was granted intervention.

2. Following a fully contested proceeding, the MPSC issued its September 28, 2017 Opinion and Order making findings on UPPCO's avoided capacity and energy costs, standard tariff offering, and related miscellaneous issues ("September 28th Order"), as relating to the requirements of the Public Utility Regulatory Policies Act of 1978, PL 95-617; 92 Stat 3117 ("PURPA"). As part of these findings, the Commission also determined that a remand was necessary for taking additional evidence on the appropriate Locational Marginal Price ("LMP")

forecast. Specifically, the parties were directed to file on or before October 16, 2017, updated LMP forecasts for 5, 10, 15, and 20 years.” Further, the parties were directed to file at that time “a proposed Standard Offer tariff that conforms to the findings in this order.” (September 28 Order, p 14)

3. On October 16, 2017, UPPCO filed the direct testimony and exhibit of Aaron L. Wallin, as well as a standard tariff, and Staff filed the direct testimony and exhibit of Julie K. Baldwin.

4. On October 27, 2017, UPPCO filed the rebuttal testimony and exhibit of Mr. Wallin.

5. On November 9, 2017, in accordance with the directive made in the September 28 Order, the record in this case was reopened and a hearing held before ALJ Sonneborn. At that time, the October 16 and 27, 2017 prefiled testimonies of Mr. Wallin and Ms. Baldwin were bound into the record, and Exhibits A-2, A-3, and Revised Exhibit S-1 were admitted into evidence. All parties waived cross-examination.

6. Subsequently, the parties engaged in settlement discussions and, as a result, have reached agreement on the reopened issues as identified in the Commission’s September 28th Order. Specifically, the parties to this settlement agreement agree as follows:

a. The LMP forecast as sponsored in Exhibit A-2 is satisfactory and should be approved by the Commission. The parties agree that the LMP forecast will be the subject of the UPPCO’s next biennial PURPA proceeding, and that should a Customer as designated by UPPCO’s D2 tariff offering, seek information regarding the Company’s forecasted LMPs as presented in this case, including access to the regression analysis giving rise to the forecast,

without waiving any reasonable objection or condition, UPPCO will act in good faith to provide the information.

b. The Standard Tariff Offering as attached hereto as Attachment 1, conforms to the findings in the September 28th Order and should be approved by the Commission.

7. All of the signatories are of the opinion that this settlement agreement is reasonable, in the public interest and will aid the expeditious conclusion of this case.

8. This settlement agreement is intended to be a final disposition of this proceeding, and the parties join in respectfully requesting that the Commission grant prompt approval. The parties agree not to appeal, challenge or contest the Commission's order accepting and approving this settlement agreement without modification. If the Commission does not accept the settlement agreement without modification, the agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

9. This settlement agreement has been made for the sole and express purpose of settling this case, and all discussions relating hereto are and shall be privileged and shall not be used in any manner, or be admissible for any other purpose in connection with this proceeding or any other proceeding hereof. This settlement agreement does not constitute precedent in any other case or proceeding. Without limiting the generality of the foregoing, this settlement agreement shall not constitute *res judicata* or collateral estoppel as to any issue. Neither the parties to the settlement nor the Commission shall use this settlement agreement or the order approving it, as precedent in any case or proceeding; provided however, reference to Paragraph 4 may be made to enforce or implement the provisions thereof in subsequent proceedings.

10. The parties agree to waive Section 81 of the APA of 1969, as amended, MCL 24.281, as it applies to this proceeding if the Commission approves this settlement agreement without modification.

UPPER PENINSULA POWER COMPANY

**Sherri A.
Wellman**

Digitally signed by: Sherri A. Wellman
DN: CN = Sherri A. Wellman C = AD
O = MillerCanfield
Date: 2017.11.30 10:50:13 -05'00'

Dated: November 30, 2017

By: _____

Its Attorney
Sherri A. Wellman (P38989)
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MICHIGAN PUBLIC SERVICE COMMISSION STAFF

Michael J. Orris

Dated: November 30, 2017

By: _____

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ENVIRONMENTAL LAW AND POLICY CENTER,
THE ECOLOGY CENTER, THE SOLAR ENERGY
INDUSTRIES ASSOCIATION, AND VOTE SOLAR

Margrethe L. Kearney

Dated: November 30, 2017

By: _____

Its Attorney
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Environmental Law & Policy Center
1514 Wealthy Street SE, Suite 256
Grand Rapids, MI 49506

D2. Parallel Generation - Purchase by UPPCO**PG-4**EFFECTIVE IN

All territory served.

AVAILABILITY

To customers contracting for electric service who satisfy the requirements of "qualifying facility" status under Part 292 of the Federal Energy Regulatory Commission's regulations under the Public Utility Regulatory Policies Act of 1978, generating electrical energy with total customer owned generating capacity of 1 MWac or less, and desiring to sell electrical energy to the Company. To qualify for this service, a seller shall execute a standard Power Purchase Agreement with the Company. Customers with generation capacity greater than 1 MW may negotiate with the Company for rates other than specified in this rate schedule. Customers with generation capacity of 150 KW or less have the option of selling energy to the Company under the Pg-2 tariff or the Pg-1M tariff for customers with generator ratings that do not exceed 20 KW. Customers may take service under PG-3 if the requirements are met for methane digesters.

Service hereunder shall be restricted to the Company's purchase of energy or energy and capacity from the seller's generating facilities up to the Contract Capacity specified in the Power Purchase Agreement which may be operated in parallel with the Company's system. Power delivered to the Company shall not offset or be substituted for power contracted for, or which may be contracted for, under any other schedule of the Company. If a seller requires supplemental, back-up, or standby services, the seller shall enter into a separate service agreement with the Company in accordance with the Company's applicable electric rates and Service Regulations approved by the Michigan Public Service Commission.

MONTHLY RATES

Customer Charge:

For total customer owned generating capacity of under 200 KW: Standard applicable rate schedule Customer Charge.

For total customer owned generating capacity of 200 KW and greater:

	Secondary	Primary	Transmission
Monthly:	\$250.00	\$325.00	\$750.00
Daily:	\$8.2192	\$10.6849	\$24.6575

Charges for Deliveries from Company

Deliveries from the Company to the customer shall be billed in accordance with the standard applicable rate schedules of the Company.

Energy and Capacity Rate

Energy - For all energy supplied by the customer, the customer shall receive an energy payment equal to one of the rate options below, as selected by the customer and applicable for the term of the special offer contract:

D2. Parallel Generation - Purchase by UPPCO**PG-4**

Rate Option	Energy Rate \$/kWh							
1. As Available Rate	Actual MISO Day Ahead Locational Marginal Price (LMP) at the Company's UPPC.INTEGRATED load node, adjusted to reflect reduced line losses according to the distribution line voltage level at the project interconnection point, less the Administrative Fee of \$0.001/kWh.							
2. LMP Energy Rate Forecast*	MISO Real Time Locational Marginal Price (LMP) at the Company's UPPC.INTEGRATED load node, adjusted to reflect reduced line losses according to the distribution line voltage level at the project interconnection point, less the Administrative Fee of \$0.001/kWh.							
Contract Term	5 Years		10 Years		15 Years		20 Years	
	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak
	\$.04422	\$.03127	\$.04729	\$.03374	\$.04948	\$.03549	\$.05057	\$.03636

Capacity -

Capacity value for intermittent resources is based on MISO zonal resource credits (ZRCs). Capacity value paid to QFs does not depend on whether the Company actually obtains ZRCs for such capacity, only that the Company could obtain ZRCs for the QF capacity. Capacity value paid to a QF is in units of \$/ZRC-Month. MISO ZRCs are equal to the project's nameplate capacity (in MW AC) modified by the MISO effective load carrying capacity (ELCC) calculation.

The MISO ELCC calculation method shall be set for the term of the QF contract according to the MISO Business Practices Manual (BPM) calculation method effective at the time of the QF contract execution.

The currently effective ELCC calculation is provided in MISO BPM-011-r16 § 4.2.3, which recognizes capacity based on accumulated, historical performance.

The current resource planning period is the planning year which runs from June 1st of each year through May 31st of the following year. If no historical generation data is available for the first year of generation a QF shall be assigned the MISO class average capacity credits by technology.

Payments shall be reduced by any applicable monthly Interconnection Cost.

Capacity Payment

Year	Capacity Payment
2017	\$2,100/ZRC-Month
2018	\$2,500/ZRC-Month
2019 and After	\$3,000/ZRC-Month

Renewable Premium: At the Company's sole discretion, a premium to be paid on a per Kwh basis may be applied to generators that generate a renewable credit that is transferred to the Company. Customers retain the right to refuse a renewable premium and keep the renewable credits or tags. Premiums are to be set when the contract is signed and will not change during the contract period.

Distribution Loss Factors: The following factors shall be applied to the on-peak and off-peak energy payments to reflect system losses:

Customers metered at a transmission voltage of 50,000 volts or higher: 1.0350
Customers metered at a primary voltage of 4,160 volts - 50,000 volts: 1.0550
Customers metered at a secondary voltage of less than 4,160 volts: 1.0322

ON-PEAK HOURS

Hours Ending 0800 through 2300 Eastern Prevailing Time Monday through Friday excluding NERC holidays.

OFF-PEAK HOURS

All hours not listed as on-peak hours.

HOLIDAYS

The days of the year which are considered holidays are: New Year's Day, Memorial Day, Fourth of July, Labor Day, Thanksgiving Day, Christmas Day.

MINIMUM CHARGE

The monthly minimum charge shall be the customer charge.

SERVICE COMPATIBILITY

The customer must generate electric power at the same characteristics, voltage, current and frequency, and number of phases as the customer receives service from the Company and will be subject to the same electric service rules as are the general service customers of the Company.

D2. Parallel Generation - Purchase by UPPCO

PG-4

CONTRACT

The Company will require a contract specifying technical and operating aspects of parallel generation. Customers have the right to appeal to the Michigan Public Service Commission if they believe the contract required by the Company is unreasonable.

EXECUTION OF STANDARD CONTRACT

In order to execute the Standard Contract, the Seller must complete all of the general project information requested in the applicable Standard Contract. When all information required in the Standard Contract has been received in writing from the Seller, the Company will use best efforts to respond within 15 business days with a draft Standard Contract.

The Seller may request in writing that the Company prepare a final draft Standard Contract. The Company will use best efforts to respond to this request within 15 business days. In connection with such request, the Seller must provide the Company with any additional or clarified project information that the Company reasonably determines to be necessary for the preparation of a final draft Standard Contract. When both parties are in full agreement as to all terms and conditions of the draft Standard Contract, the Company will prepare and forward to the Seller a final executable version of the agreement within 15 business days.

PRO-RATION OF DEMAND COST FOR AUTHORIZED MAINTENANCE

For customers billed on rates with demand charges, the demand charges other than "Customer Demand" shall be prorated if the maintenance schedule of the customer owned generation facility has been approved in advance in writing by the Company. Said pro-ration shall be based on the number of authorized days of scheduled maintenance. The customer shall pay the demand rate for the higher than normal demands due to the generation outage only for the days of authorized maintenance.

1. The Company shall install appropriate metering facilities to record all flows of energy necessary to bill the customer in accordance with the charges and credits of this rate schedule.
2. The customer shall furnish, install, and wire the necessary service entrance equipment, meter sockets, meter enclosure cabinets, or meter connection cabinets that may be required by the Company to properly meter usage and sales to the Company.
3. The requirements for interconnecting a generator with the Company's facilities are contained in the Michigan Public Service Commission's Electric Interconnection Standards Rules R460.601 - 460.656 and the Company's Michigan Utility Generator Interconnection Requirements, copies of which will be provided to customers upon request. All requirements must be met prior to commencing service.
4. Customer will secure and maintain liability insurance that provides protection against claims for damages resulting from (1) bodily injury, including wrongful death, and (2) property damage arising out of the customer's ownership and/or operation of the facility. The limits of the policy will be at least one million dollars (or the level shown in the Michigan Electric Interconnection and Net Metering Standards, R 460.615 - R 460.628, Rule 624) per occurrence or prove financial responsibility by another method acceptable to and approved in writing by the Company.

The failure of the customer or the Company to enforce the minimum levels of insurance does not relieve the customer from maintaining such levels of insurance or relieve the customer of any liability. The customer will provide the Company with a certificate of insurance containing a minimum 30-day notice of cancellation prior to execution of this agreement.

Each of the parties will indemnify and save harmless the other party against any and all damages to persons or property occasioned, without the negligence of such other party, by the maintenance and operation by such parties of their respective lines and other electrical equipment.